

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Blue Water Area Transportation Commission	County St. Clair County
Fiscal Year End September 30, 2007		Opinion Date March 13, 2008		Date Audit Report Submitted to State March 28, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

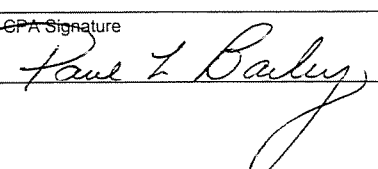
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple		Telephone Number 810-984-3829		
Street Address 1979 Holland Ave.		City Port Huron	State MI	Zip 48060
Authorizing CPA Signature 		Printed Name Paul Bailey		License Number 1101014088

**BLUE WATER AREA
TRANSPORTATION COMMISSION
Port Huron, Michigan**

**ANNUAL FINANCIAL REPORT
with Supplementary Information**

**FOR THE YEARS ENDED
SEPTEMBER 30, 2007 AND 2006**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Blue Water Area Transportation Commission
Port Huron, Michigan

We have audited the accompanying financial statements of the Blue Water Area Transportation Commission as of September 30, 2007 and 2006, and for the years then ended, as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Blue Water Area Transportation Commission, as of September 30, 2007 and 2006, and cash flows for the years then ended in conformity with accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 13, 2008, on our consideration of the Commission's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 5 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Blue Water Area Transportation Commission's basic financial statements. The other accompanying supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a regular part of the basic financial statements of the Blue Water Area Transportation Commission. Also, the Schedule of Expenditures of Federal Awards presented on page 37 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and is not a required part of the financial statements. Such information except the portion marked "unaudited" (Schedules 4N Urban and NonUrban) on which we express no opinion, has been subject to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

March 13, 2008

BLUE WATER AREA TRANSPORTATION COMMISSION

Management's Discussion and Analysis

Our discussion and analysis of the Blue Water Area Transportation Commission's financial statements provides an overview of the Commission's financial activities for the fiscal year ended September 30, 2007. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets provide information about the activities of the Commission and present a long-term view of the Commission's finances. Also, the financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, supplementary financial information and supplementary information on federal and state awards.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Commission's overall financial status. These statements report information about the Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenditures, and Changes in Fund Net Assets regardless of when cash is received or paid. The two government-wide statements report the Commission's net assets and how they have changed. "Net Assets" is the difference between the assets and liabilities; this is one way to measure the Commission's financial health or position.
- The third statement is the Statement of Cash Flows which shows the change in cash and cash equivalents presenting all activity of the Commission on a cash basis.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by supplementary information that further explains and supports the information in the financial statements.

Also included in this report is Supplementary Information regarding Federal and State Awards, which is required because the Commission spends in excess of \$500,000 of federal revenue.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Fund Net Assets report information about the Commission, as a whole, and about its activities in a way that helps answer the question of whether the Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenditures, and Changes in Fund Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Commission's net assets and how they have changed. The reader can think of the Commission's net assets (the difference between assets and liabilities) as one way to measure the Commission's financial health or financial position. Over time, increases or decreases in the Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To access the overall health of the Commission, you need to consider additional factors such as changes in the general economy and changes in the laws related to Federal and State transportation funding.

Fund Financial Statements

The Commission has only one fund, the General Operating fund, in which all of the Commission's activities are accounted. The General Operating Fund is a business-type fund, which accounts for activities on a full accrual basis.

FINANCIAL OVERVIEW

The Commission had net assets of \$20,553,989 at September 30, 2007. This is an increase of \$898,825 over fiscal 2006. Of the net assets at September 30, 2007, \$18,042,843 was a result of capital assets owned by the Commission, \$82,215 was restricted and the remaining \$2,428,931 unrestricted. The table below summarizes the net assets at September 30, 2007 and 2006.

	<u>2007</u>	<u>Restated 2006</u>
Assets		
Current assets	\$ 3,911,525	\$ 7,656,756
Capital assets	<u>18,832,843</u>	<u>16,623,144</u>
Total assets	<u>22,744,368</u>	<u>24,279,900</u>
Liabilities		
Current liabilities	1,400,379	4,624,736
Long-term liabilities	<u>790,000</u>	<u>-</u>
Total liabilities	<u>2,190,379</u>	<u>4,624,736</u>
Net Assets		
Invested in capital assets - Net	18,042,843	16,623,144
Restricted	82,215	-
Unrestricted	<u>2,428,931</u>	<u>3,032,020</u>
Total net assets	<u>\$20,553,989</u>	<u>\$19,655,165</u>

The increase in net assets of \$898,825 is mainly a result of the purchase of capital assets of \$2,293,841 less the depreciation of \$1,340,116.

The following table summarizes the changes in net assets for 2007 and 2006.

	<u>2007</u>	<u>Restated 2006</u>
Revenue		
Operating Revenue	\$ 3,532,595	\$ 3,242,612
Non-operating Revenue (Expenses) –		
State and Federal Fund	4,468,159	4,454,346
Other	<u>16,868</u>	<u>139,931</u>
	8,017,622	7,836,889
Operating Expenses	<u>9,086,965</u>	<u>8,201,768</u>
Net (Loss) before Capital Grant	(1,069,343)	(364,879)
Capital Grant	<u>1,968,168</u>	<u>9,623,144</u>
Net Income (Loss)	<u>\$ 898,825</u>	<u>\$ 9,258,265</u>

Of the operating revenues of \$3,532,595 for fiscal 2007, \$3,284,771 or 93% was received from contractual revenue from other municipalities or nonprofit agencies. The other major sources of revenue were \$4,468,159 from federal and state agencies for operations and \$1,968,168 for capital acquisitions.

CAPITAL ASSETS

The Commission has \$18,832,843 invested in capital assets (net of accumulated depreciation) as of September 30, 2007. The investment in capital assets includes, land, buildings, machinery and equipment, office equipment and buses and other vehicles. During the year the Commission purchased approximately \$2,293,841 of which \$1,845,396 was from the construction of the new bus storage, maintenance and administration facility.

The following table summarizes the capital assets at September 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Land	\$ 405,942	\$ 405,942
Land Improvements	599,888	25,102
Buildings	14,858,200	981,911
Machinery and Equipment	1,695,113	1,630,384
Office Furniture and Equipment	253,161	32,703
Buses and Vehicles	9,044,816	9,747,317
Construction in Progress	<u>-</u>	<u>11,265,563</u>
	26,857,120	24,088,922
Accumulated Depreciation	<u>(8,024,277)</u>	<u>(7,465,778)</u>
Capital Assets, Net of Depreciation	<u>\$ 18,832,843</u>	<u>\$ 16,623,144</u>

ECONOMIC FACTORS AND NEXT YEARS OPERATIONS

Blue Water Area Transportation Commission has a balanced budget for fiscal year 2008 without having to make cuts in service.

Fuel cost increases may have a negative impact on Blue Water Area Transportation Commission in 2008.

The Blue Water Area Transportation Commission has been awarded funding for three projects under the Federal Job Access and Reverse Commute (JARC) program. These projects include: 1) extended weekday evening service hours in the cities of Port Huron and Marysville as well as Fort Gratiot, Burtchville and Port Huron Townships; 2) new commuter routes between Port Huron and the SMART bus system in Macomb County; and 3) a transportation voucher program for eligible county residents. The Blue Water Area Transportation Commission expects to begin all three projects in FY 2008.

In 2008 a four-year operating millage for Blue Water Area Transportation is up for renewal by the City of Port Huron and the Charter Township of Fort Gratiot.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens and other interested parties a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Blue Water Area Transportation Commission, 2021 Lapeer Avenue, Port Huron, MI 48060.

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

STATEMENT OF NET ASSETS SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>Restated 2006</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 2,208,160	\$ 3,948,960
Accounts receivable	33	186
Due from other governmental units/nonprofit agencies -		
Federal	55,649	1,820,002
State	513,244	417,700
Local	472,569	753,738
Inventory	436,652	471,029
Deposit in insurance pool	128,644	157,018
Prepaid expenses	96,574	88,123
Total Current Assets	<u>3,911,525</u>	<u>7,656,756</u>
Capital Assets:		
Land and land improvements	1,005,830	431,044
Building	14,858,200	981,911
Machinery and equipment	1,695,113	1,630,384
Office furniture and equipment	253,161	32,703
Transportation equipment and improvements	9,044,816	9,747,317
Construction in progress	-	11,265,563
	<u>26,857,120</u>	<u>24,088,922</u>
Less - accumulated depreciation	(8,024,277)	(7,465,778)
Total Property and Equipment	<u>18,832,843</u>	<u>16,623,144</u>
Total Assets	<u>22,744,368</u>	<u>24,279,900</u>
LIABILITIES:		
Current Liabilities:		
Accounts payable	732,530	3,686,985
Accrued salaries	52,920	49,770
Other accrued liabilities	55,885	53,729
Insurance payable	-	31,713
Due to other agencies	242,042	498,217
Due to other governmental units -		
Federal	-	28,708
State	39,318	-
Deferred revenue	277,684	275,614
Total Current Liabilities	<u>1,400,379</u>	<u>4,624,736</u>
Long-term Liabilities (less current portion)		
Notes payable	790,000	-
	<u>2,190,379</u>	<u>4,624,736</u>
NET ASSETS:		
Invested in capital assets, net	18,042,843	16,623,144
Restricted	82,215	-
Unrestricted	2,428,931	3,032,020
Total Net Assets	<u>\$ 20,553,989</u>	<u>\$ 19,655,164</u>

The accompanying notes are an integral part of these financial statements.

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	Restated 2006
Operating Revenues:		
Farebox, Ticket and Bus Passes	\$ 194,959	\$ 189,737
Charter	11,460	8,717
Advertising	3,070	3,215
Contractual fares	509,533	479,708
Tax Revenues/Contractual Services	1,129,805	1,054,951
Contributions from local agencies	1,645,433	1,476,724
Other	38,335	29,560
	<u>3,532,595</u>	<u>3,242,612</u>
Operating Expenses:		
Administrative	712,413	608,620
Operations	6,265,140	6,012,847
Maintenance	1,534,072	1,399,484
Facilities	575,340	180,817
Total Operating Expenses	<u>9,086,965</u>	<u>8,201,768</u>
Operating Loss	<u>(5,554,370)</u>	<u>(4,959,156)</u>
Non-Operating Revenues:		
Interest Expense	(96,976)	-
Interest Earned	111,368	139,931
Gain on sale of fixed assets	2,476	-
State & Federal Revenues	4,468,159	4,454,346
Total Non-Operating Revenues	<u>4,485,027</u>	<u>4,594,277</u>
Net Loss before Capital Grants	<u>(1,069,343)</u>	<u>(364,879)</u>
Capital Grants		
Federal	1,574,535	8,098,514
State	393,633	1,524,930
	<u>1,968,168</u>	<u>9,623,144</u>
Net Income	<u>898,825</u>	<u>9,258,265</u>
Net Assets at beginning of year	19,655,164	10,120,238
Prior Period Adjustment	<u>-</u>	<u>276,661</u>
Net Assets at beginning of year, as restated	<u>19,655,164</u>	<u>10,396,899</u>
Net Assets at end of year	<u><u>\$ 20,553,989</u></u>	<u><u>\$ 19,655,164</u></u>

The accompanying notes are an integral part of these financial statements.

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
Cash Flows From Operating Activities:		
Cash receipts from customers	\$ 2,170,554	\$ 1,648,177
Cash payments to suppliers	(3,081,793)	(2,571,823)
Cash payments to employees	(3,321,364)	(3,129,219)
Net Cash Used by Operating Activities	<u>(4,232,603)</u>	<u>(4,052,865)</u>
Cash Flows From Non-Capital Financing Activities:		
Cash received from intergovernmental sources	4,827,388	4,618,233
Net Cash Provided by Non-Capital Financing Activities	<u>4,827,388</u>	<u>4,618,233</u>
Cash Flows From Capital and Related Financing Activities:		
Note proceeds	2,290,000	-
Payment of note	(1,596,976)	-
Acquisition of property and equipment	(6,514,953)	(7,726,249)
Proceeds from sale of assets	86,618	-
Federal & State capital grants	3,288,358	7,982,378
Net Cash Provided by Capital and Related Financing Activities	<u>(2,446,953)</u>	<u>256,129</u>
Cash Flows From Investing Activities:		
Interest	111,368	139,931
Net Cash Provided by Investing Activities	<u>111,368</u>	<u>139,931</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,740,800)	961,428
Cash and Cash Equivalents at beginning of year	<u>3,948,960</u>	<u>2,987,532</u>
Cash and Cash Equivalents at end of year	<u><u>\$ 2,208,160</u></u>	<u><u>\$ 3,948,960</u></u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating loss for the year	\$(5,554,370)	\$(4,959,156)
Adjustments to reconcile operating loss		
to net cash used by operating activities -		
Depreciation	1,340,116	1,103,077
Changes in assets and liabilities -		
Accounts receivable	153	27
Due from other governmental units - local	281,169	(200,249)
Inventory	34,377	(12,714)
Prepaid expenses	19,923	9,829
Accounts payable	(73,459)	60,060
Due to other governmental units	-	(84,839)
Due to other agencies	(256,175)	96,978
Insurance payable	(31,713)	(94,781)
Accrued liabilities	5,306	14,089
Deferred revenue	2,070	14,814
Net Cash Used by Operating Activities	<u><u>\$(4,232,603)</u></u>	<u><u>\$(4,052,865)</u></u>
Non-cash Financing activities:		
Contributions from local agencies	<u><u>\$ 1,645,433</u></u>	<u><u>\$ 1,476,724</u></u>

The accompanying notes are an integral part of these financial statements.

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

The accounting methods and procedures adopted by the Blue Water Area Transportation Commission conforms to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to Financial Statements are an integral part of the Commission's financial statements:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Blue Water Area Transportation Commission (BWATC) was created as a legal and administrative agency pursuant to the Urban Cooperation Act, PA 1967, Ex. Sess., No. 7. It is a quasi-governmental agency providing public transportation in Blue Water Area Transportation Commission and surrounding areas.

B. District-Wide and Fund Financial Statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Commission. The Blue Water Area Transportation Commission is accounted for in one business-type fund.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation -

The Commission's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the limits of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activity, subject to this same limitation. The Commission has selected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets on Equity -

Cash Equivalents -

Cash equivalents are deposits and short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase. Cash equivalents also consist of investment trusts which are recorded at cost and approximate "fair" value. The Investment Trust Funds have the general characteristics of demand deposit accounts in that the Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

Receivables -

All receivables are shown net of allowance for uncollectible amounts.

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Prepaid Items -

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statement.

Inventory -

Inventory consists of parts, tires, oil and lubricants, diesel fuel, and various other supplies which are stated at lower of average of cost or market.

Capital Assets -

Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$5,000, except for assets purchased with federal or state grants which are capitalized regardless of the amount, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Depreciation is computed using the straight-line method, based on the estimated useful service lives of the respective assets. The estimated useful service lives are as follows:

Building	18.5 – 30 years
Machinery and equipment	2 – 10 years
Office furniture and equipment	3 – 6 years
Transportation equipment and improvements	4 – 12 years

Cost Allocation Plan –

The Blue Water Area Transportation Commission has three (3) cost allocation plans approved by the Bus Transit Division of the Michigan Department of Transportation. These cost allocations are for the separation of Charter Services, Urban/NonUrban services and administration costs.

Advertising Revenues –

The Commission received advertising revenues, however, there are not any costs associated with these revenues, therefore, they are not considered ineligible expenses.

Estimates -

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Vacation Pay -

Vacation is earned based upon length of service with BWATC. In most cases, it must be used within one fiscal year after it is earned or it is forfeited. Under this criteria, all accrued vacation pay recorded at September 30 must be taken prior to the next fiscal year end or is lost. Therefore, all accrued vacation pay at September 30 is reported as a current liability.

NOTE 2 - DEPOSITS AND INVESTMENTS:

As of September 30, 2007 and 2006, the carrying amount of the deposits and investments is as follows:

	<u>2007</u>	<u>2006</u>
Deposits with Financial Institution	\$ 183,083	\$ 149,990
Investment –		
Investment Trust Funds	<u>2,025,077</u>	<u>3,798,970</u>
	<u>\$ 2,208,160</u>	<u>\$ 3,948,960</u>

It is the policy of the Blue Water Area Transportation Commission to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the Blue Water Area Transportation Commission and comply with all state statutes governing the investment of public funds. The primary objective, in the order of priority, is safety of principle, diversification, liquidity and return on investment.

Deposits -

The Michigan Compiled Law, authorizes the Commission to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Custodial Credit Risk – is the risk that in the event of a bank failure, the Commission's deposits or investments may not be returned. The Commission does not have a deposit policy for custodial credit risk.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

NOTE 2 - DEPOSITS AND INVESTMENTS - (cont'd):

As of September 30, 2007, the carrying amount and the bank balance is \$183,083 and \$200,652, respectively, of which \$100,000 was covered by FDIC insurance and the remaining \$100,652 was uninsured and uncollateralized. As of September 30, 2006, the carrying amount and bank balance was \$149,990 and \$217,127, respectively, of which \$100,000 was covered by FDIC insurance and the remaining \$117,127 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Commission held as cash and cash equivalents increases significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents was substantially higher at these peak periods than at year end.

Investments -

Act 20 PA 1994 as amended by Act 1997 PA 1999 authorizes the Commission to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Interest Rate Risk – is the risk that the market value of securities in the Commission's portfolio will fall due to changes in market interest increases. The Commission's policy attempts to minimize interest rate risk by seeking a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Credit Risk – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Commission's investment policy and state law limits the type of investments that can be purchased.

Concentration of credit risk – is the risk of loss attributed to the magnitude of the Commission's investments in a single issuer. The Commission's investment policy requires that investments be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

As of September 30, 2007, the Commission was invested in one external investment pool. The fund invests primarily in a portfolio of short-term U.S. Treasury securities. These investments include repurchase agreements collateralized fully by U.S. Treasury securities. It is rated as AAAM by Standards & Poors and Aaa by Moody's, and has an average maturity of 3.33 and 17.61 days for 2007 and 2006, respectively.

The investment trust has been reported in the financial statements as a cash equivalent because it has the general characteristics of demand deposit accounts in that the Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

NOTE 3 - DUE FROM/TO OTHER GOVERNMENTAL UNITS:

The amount due from other governmental units at September 30, 2007 were as follows:

State Operating Assistance -	FY 2004	\$ 13,479
	FY 2006	63,609
	FY 2007 (See Schedule 5)	117,936
State Capital Assistance Section 5307		318,220
Federal Section 5311	FY 2006	20,505
	FY 2007 (See Schedule 5)	32,788
Federal Section		2,356
Local Units		<u>472,569</u>
		<u>\$ 1,041,461</u>

The amount due to other governmental units at September 30, 2007 was as follows:

State Operating Assistance -	FY 2005	<u>\$ 39,318</u>
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NOTE 4 - DEFERRED REVENUE:

Revenues received before they are earned are recorded as deferred revenue. At September 30, 2007 and 2006, the deferred revenues of \$277,684 and \$275,614, respectively, represent taxes received from governmental units but transportation services must be provide in future periods.

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2007 was as follows:

	Oct. 1, 2006			Sept. 30, 2007
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Capital assets, being depreciated:				
Construction in progress	\$ 11,265,563	\$ -	\$ 11,265,563	\$ -
Land	<u>405,942</u>	<u>-</u>	<u>-</u>	<u>405,942</u>
	<u>11,671,505</u>	<u>-</u>	<u>11,265,563</u>	<u>405,942</u>
Capital assets, being depreciated:				
Buildings	981,911	13,876,289	-	14,858,200
Land improvements	25,102	574,786	-	599,888
Machinery and equipment	1,630,384	122,833	58,104	1,695,113
Office furniture and equipment	32,703	221,335	877	253,161
Buses and vehicles	<u>9,747,317</u>	<u>104,277</u>	<u>806,778</u>	<u>9,044,816</u>
Total capital assets being depreciated	<u>12,417,417</u>	<u>14,899,520</u>	<u>865,759</u>	<u>26,451,178</u>
Less accumulated depreciation for:				
Buildings	652,229	348,507	-	1,000,736
Land improvements	21,773	34,600	-	56,373
Machinery and equipment	1,106,331	144,089	58,103	1,192,317
Office furniture and equipment	18,746	33,968	875	51,839
Buses and vehicles	<u>5,666,699</u>	<u>778,952</u>	<u>722,639</u>	<u>5,723,012</u>
Total accumulated depreciation	<u>7,465,778</u>	<u>1,340,116</u>	<u>781,617</u>	<u>8,024,277</u>
Total capital assets being depreciated, net	<u>4,951,639</u>	<u>13,559,404</u>	<u>84,142</u>	<u>18,426,901</u>
Total capital assets, net	<u>\$ 16,623,144</u>	<u>\$13,559,404</u>	<u>\$11,349,705</u>	<u>\$ 18,832,843</u>

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

NOTE 5 - CAPITAL ASSETS – (cont'd):

When assets are withdrawn from public transportation services with a fair market value of \$5,000 or more, the disposition of the assets is determined by the grantor. During the year, the BWATC disposed of assets, which were Federal and State funded with a historical cost of \$862,862 and a book value of \$84,139. Only one asset had a value in excess of \$5,000, which was sold for \$82,215, which the grantor has allowed the BWATC to retain and use for toward purchase of the next vehicle.

The eligible depreciation of \$16,927 (\$1,340,116 total depreciation reported for Urban, NonUrban and Charter Services less ineligible depreciation of \$1,322,189) includes only the depreciation of assets purchased with local funds and when the useful life of the asset purchased has been approved by the BPT.

NOTE 6 - INTERGOVERNMENTAL - LOCAL OPERATING REVENUES:

City of Port Huron and the Charter Township of Fort Gratiot - These local units levy taxes to provide revenue for the governmental units' contributions for the operation of the Commission. The municipalities' obligation is limited only to the amount the millage raised by each unit.

Charter Township of Port Huron, Burtchville Township and the City of Marysville - These local units have entered into agreements with the Commission to provide services for their respective municipality. The agreement specifies that each of the units shall reimburse the Commission for the cost of providing the services, less any grants or fees received. Each of the municipalities levies a tax to pay for the services.

NOTE 7 - DEFERRED COMPENSATION:

The Commission offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

Once a trust, custodial account or annuity contract exists, assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

The Commission has determined that a fiduciary relationship does not exist and as a result the Deferred Compensation Plan is not reported as part of the Blue Water Area Transportation Commission.

NOTE 8 - CONTRACTED TRANSPORTATION SERVICES:

The Blue Water Area Transportation Commission contracts with various municipalities and nonprofit agencies to provide transportation services. Under the agreements, the agencies are to pay for all of said services and are reimbursed for a percent of Eligible Operating Expenses and, if applicable, an additional amount for any Nonurban costs. The total cost of providing these services are included in the Commission's Financial Statement, with the difference between the anticipated amount funded with Federal and State grants recorded as a local agency contribution. As of September 30, 2007 and 2006, the Commission has recorded a liability of \$242,042 and \$498,217 to these agencies.

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

NOTE 9 - CONTINGENT LIABILITIES:

The BWATC participates in a number of federally and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audit of these programs for or including the years ended September 30, 2007 and 2006 have been conducted and reported in the annual report. However, final settlements have not been approved by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although BWATC expects such amounts, if any, to be immature.

As indicated in Note 8, the Commission has contracted with other agencies to provide certain transportation services. The costs of providing these services and reimbursement from MDOT is based on eligible costs incurred and provided by the various agencies. Each agency is subject to an audit by a certified public accounting firm, however the audits for 2007 have not been completed as of issuance date of the Commission's financial statements. Any adjustment, if any, as a result of these audits could not be determined.

NOTE 10 - LONG-TERM DEBT:

The Commission entered into a promissory note dated March 17, 2006 in the amount of \$2,290,000 for the purpose of financing the construction of the new bus storage, maintenance and administrative facility. During fiscal 2007, the Commission repaid \$1,500,000, with a remaining balance of \$790,000, at September 30, 2007. There was no outstanding balance at September 30, 2006.

NOTE 11 - EMPLOYEE PENSION PLAN:

Plan Description -

As of October 1, 1999 the Blue Water Area Transportation Commission adopted the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Commission requires no member contributions. The Commission is required to contribute at an actuarially determined rate; the rate for 2007 was from 8.21% to 8.34% and for 2006 from 7.36% to 7.80%. The contribution requirements of plan members and the Commission are established and may be amended by the Commission, depending on the MERS contribution program adopted by the Commission.

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

NOTE 11 - EMPLOYEE PENSION PLAN - (cont'd):

Annual Pension Costs -

For fiscal 2007 and 2006, the Commission paid annual pension costs of \$139,878 and \$118,561, respectively for MERS, which equaled the Commission's required contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

Trend Information

<u>Fiscal Year</u> <u>Ending Sept. 30,</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
2005	\$ 113,415	100 %	-
2006	118,561	100	-
2007	139,878	100	-

Schedule of Funding Progress

<u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued Liability</u> <u>(AAL) Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>(Overfunded)</u> <u>Accrued Liability</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded Ratio</u> <u>(AAL)</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL</u> <u>as a % of</u> <u>Covered Payroll</u> <u>(b-a)/c</u>
12/31/2004	\$ 1,916,768	\$ 2,454,161	\$ 537,393	78 %	\$ 1,351,397	40 %
12/31/2005	2,118,623	2,687,904	569,281	79	1,484,188	38
12/31/2006	2,380,408	2,858,942	478,534	83	1,653,207	29

NOTE 12 - RISK MANAGEMENT:

General Liability -

The Commission purchases general liability insurance through a commercial insurance carrier with coverages of \$1,000,000 for each occurrence and \$1,000,000 aggregate limits with deductibles of \$10,000, plus an additional umbrella of \$4,000,000.

Buildings and Equipment (other than vehicles) -

Insurance is purchased through a commercial carrier in various amounts with deductibles of \$250 - \$10,000.

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

NOTE 12 - RISK MANAGEMENT – (cont'd):

Automobile and General Liability -

The Commission is a member of the Michigan Transit Pool (MTP). The MTP is an organization of public authorities and agencies providing public transportation services and is established by an intergovernmental agreement pursuant to the provision of MCL Section 124.1 et seq. The MTP is governed by the MTP Board of Commissioners and in accordance with the bylaws, is comprised of one representation of each member systems.

For 2007, the Pool provides a total coverage of \$5,000,000 per each occurrence for risk associated with the operation of Commission vehicles. The Commission is responsible for all losses falling within its self-insured retention of \$50,000 per occurrence, for liability and \$10,000 for damages, plus their share of pooled losses and administration expenses. The Commission is charged an annual premium to cover the fiscal year cost. The actual transportation costs are allocated to the Commission through retroactive adjustments. The Pool requires members to make a contingency reserve and can also maintain a premium stabilization reserve for potential significant claims and to protect the Pool member from major fluctuation and insolvency. The Commission had approximately \$128,644 and \$157,018 on deposit with the Pool at September 30, 2007 and 2006, respectively.

NOTE 13 - PRIOR PERIOD ADJUSTMENT –

A prior period adjustment was made to the October 1, 2005 net assets in the amount of \$276,661, of which, \$186,933 was to record the additional federal reimbursement for fiscal years 2004 and 2005 for indirect administration charges, and \$89,728 to adjust the amount due to the State of Michigan for prior years. The 2006 current assets were increased by \$55,195 and the current liabilities decreased by \$221,466.

SUPPLEMENTARY FINANCIAL INFORMATION

SCHEDULE 1
LOCAL REVENUES
FOR THE YEAR ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
Farebox, Tickets and Bus Passes		
Urban	\$ 191,616	\$ 186,683
Nonurban	3,343	3,054
Contractual fares	509,533	479,708
Contribution from local agencies	1,645,433	1,476,724
Charter	11,460	8,717
Advertising	3,070	3,215
Tax levy	1,129,805	1,054,951
Sales of maintenance services	35,357	28,005
Miscellaneous	2,978	1,555
	<u>3,532,595</u>	<u>3,242,612</u>

SCHEDULE 1A
NON-OPERATING FEDERAL AND STATE OPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Tax Revenues -			
SBT inventory tax		\$ -	\$ 14,998
State of Michigan Operating Grants -			
New Bus Operating Assistance (Act 51)	- Current Year	2,987,266	2,789,346
	- Prior	(33,753)	101,867
		<u>2,953,513</u>	<u>2,891,213</u>
Federal Operating Grants -			
U.S. DOT Operating Grant - Section 5307	- Current Year	1,077,714	1,087,023
U.S. DOT Operating Grant - Section 5311	- Current Year	436,932	461,112
		<u>1,514,646</u>	<u>1,548,135</u>
Total Non-Operating Revenues - State and Federal		\$ 4,468,159	\$ 4,454,346

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

SCHEDULE 2
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	Participation Percentage	Federal CFDA Number	Grantor Number	Program or Award Amount	Current Year's Expenditures			Prior Year's Expenditures	Amount Remaining
					Total Expenditures	State Expenditures	Federal Expenditures		
U.S. DEPARTMENT OF TRANSPORTATION:									
Direct Assistance -									
Capital Assistance -									
Section 5309	(20/80)	20.500	MI-03-0168	\$ 490,547	\$ 36,251	\$ -	\$ 36,251	\$ 454,296	\$ -
Section 5309	(20/80)		MI-04-0021	1,250,000	1,250,000	-	1,250,000	-	-
Section 5307	(20/80)	20.507	MI-90-X362	529,496	11,219	-	11,219	518,277	-
Section 5307	(20/80)		MI-90-X390	938,000	4,782	-	4,782	357,219	575,999
Section 5307	(20/80)		MI-90-X409	416,000	-	-	-	-	416,000
Section 5307	(20/80)		MI-90-X416	189,200	101,731	-	101,731	47,457	40,012
Section 5307	(20/80)		MI-90-X445	636,000	-	-	-	-	636,000
Section 5307	(20/80)		MI-90-X446	165,600	78,269	-	78,269	20,188	67,143
Section 5307	(20/80)		MI-90-X477	300,000	-	-	-	-	300,000
Section 5307	(20/80)		MI-90-X479	16,000	16,000	-	16,000	-	-
Section 5307	(20/80)		MI-90-X506	40,240	16,000	-	16,000	-	24,240
Section 5307	(20/80)		MI-90-X513	2,188,000	-	-	-	-	2,188,000
Section 5307	(20/80)		MI-90-X538	76,000	-	-	-	-	76,000
Section 5307	(20/80)		MI-95-X007	823,062	-	-	-	-	823,062
				8,058,145	1,514,252	-	1,514,252	1,397,437	5,146,456
Passed Through Michigan Department of Transportation -									
Capital Assistance -									
Section 5309	(20/80)	20.500	2000-0450/A3	1,730,659	-	-	-	290,659	1,440,000
Section 5309	(20/80)		2002-0020/Z16	330,480	60,283	-	60,283	-	270,197
MICHIGAN DEPARTMENT OF TRANSPORTATION:									
Capital Assistance -									
Section 5307/CMAQ	(20/80)	N/A	2001-0845	132,374	2,805	2,805	-	129,569	-
Section 5307/CMAQ	(20/80)	N/A	2002-0020/Z8	159,000	-	-	-	-	159,000
Section 5307/CMAQ	(20/80)	N/A	2002-0020/Z13	75,000	-	-	-	-	75,000
Section 5307/CMAQ	(20/80)	N/A	2002-0020/Z19	547,000	-	-	-	-	547,000
Section 5307/CMAQ	(20/80)	N/A	2007-0178/Z4	205,766	-	-	-	-	205,766
Section 5309	(20/80)	N/A	2000-0801	122,637	9,063	9,063	-	113,574	-
Section 5309	(20/80)	N/A	2000-0450/A3	432,665	-	-	-	72,665	360,000
Section 5309	(20/80)	N/A	2002-0020/Z16	82,620	15,071	15,071	-	-	67,549
Section 5309	(20/80)	N/A	2007-0178/Z3	312,500	312,500	312,500	-	-	-

Federal Grantor/ Pass-Through Grantor/ Program Title	Participation Percentage	Federal CFDA Number	Grantor Number	Program or Award Amount	Current Year's Expenditures			Prior Year's Expenditures	Amount Remaining
					Total Expenditures	State Expenditures	Federal Expenditures		
Section 5307	(20/80)	N/A	2002-0020/Z3	234,500	1,195	1,195	-	89,304	144,001
Section 5307	(20/80)	N/A	2002-0020/Z5	47,300	25,433	25,433	-	11,863	10,004
Section 5307	(20/80)	N/A	2002-0020/Z6	104,000	-	-	-	-	104,000
Section 5307	(20/80)	N/A	2002-0020/Z10	41,400	19,566	19,566	-	5,048	16,786
Section 5307	(20/80)	N/A	2002-0020/Z15	4,000	4,000	4,000	-	-	-
Section 5307	(20/80)	N/A	2002-0020/Z17	4,000	4,000	4,000	-	-	-
Section 5307	(20/80)	N/A	2007-0178/Z2	7,000	-	-	-	-	7,000
Total Capital Assistance				12,631,046	1,968,168	393,633	1,574,535	2,110,119	8,552,759

U.S. DEPARTMENT OF TRANSPORTATION:

Direct Assistance -

Operating Assistance - Section 5307	20.507	MI-90-X538	1,077,714	1,077,714	-	1,077,714	-	-
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Passed Through Michigan Department of Transportation -

Operating Assistance - Section 5311	20.509	2007-0178/Z1	477,212	436,932	-	436,932	-	40,280
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MICHIGAN DEPARTMENT OF TRANSPORTATION:

Operating Assistance - Act 51	N/A	9/30/07	2,953,513	2,953,513	2,953,513	-	-	-
			4,508,439	4,468,159	2,953,513	1,514,646	-	40,280

Total Federal and State Awards

\$ 17,139,485	\$ 6,436,327	\$ 3,347,146	\$ 3,089,181	\$ 2,110,119	\$ 8,593,039
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Memo Only:

State and Federal Operating Assistance Computation

Based on Operating Expenditures	\$ 7,734,863
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See Notes to Schedule of Expenditures
of Federal and State Awards

BLUE WATER AREA TRANSPORTATION COMMISSION**Port Huron, Michigan****SCHEDULE 3****OPERATING AND CONTRACT EXPENSES****FOR THE YEARS ENDED SEPTEMBER 30, 2007****WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2006**

	Urban	Nonurban	Total	
			2007	2006
Labor	\$ 1,734,807	\$ 610,353	\$ 2,345,160	\$ 2,189,662
Fringe Benefits	726,061	255,449	981,510	858,865
Audit Costs	13,093	4,607	17,700	15,300
Services	177,748	62,537	240,285	222,307
Material and Supplies	610,705	213,366	824,071	758,736
Utilities	137,675	48,440	186,115	66,559
Insurance	130,206	45,811	176,017	104,433
Purchased Services	1,728,947	1,157,383	2,886,330	2,744,026
Miscellaneous	59,589	22,465	82,054	93,417
Operating Leases	5,628	1,979	7,607	45,386
Depreciation	991,337	348,779	1,340,116	1,103,077
Administration	(151,616)	151,616	-	-
	<u>\$ 6,164,180</u>	<u>\$ 2,922,785</u>	<u>\$ 9,086,965</u>	<u>\$ 8,201,768</u>

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

SCHEDULE 4R(URBAN)
URBAN REGULAR SERVICE REVENUE REPORT
FOR THE YEAR ENDED SEPTEMBER 31, 2007

Farebox revenues -passenger fees	\$ 191,616
Contracted fares	1,073,127
Charter services	11,460
Auxiliary transportation revenues	
Advertising	3,070
Nontransportation revenues	
Sales of maintenance services	35,357
Gains from the sale of capital assets	2,476
Other	2,978
Local revenues	
Taxes levied directly for the transit agency	1,057,781
State formula and contracts	
State operating assistance	
Current year	1,994,639
Prior years	(20,488)
Federal contracts	
Federal section 5307	1,077,714
Other Revenues	
Interest income	111,368
	<hr/>
	<u><u>\$ 5,541,098</u></u>

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

SCHEDULE 4E(URBAN) URBAN REGULAR SERVICE EXPENSE REPORT FOR THE YEARS ENDED SEPTEMBER 30, 2007

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total</u>
Labor				
Operators' salaries and wages	\$ 908,981	\$ -	\$ -	\$ 908,981
Other salaries and wages	-	457,406	231,441	688,847
Dispatchers' salaries and wages	136,979	-	-	136,979
Fringe benefits				
Other fringe benefits	379,871	145,325	97,392	622,588
Pensions	50,798	33,204	19,471	103,473
Services				
Advertising fees	-	-	29,880	29,880
Audit costs	-	-	13,093	13,093
Other services	-	109,268	38,600	147,868
Material and supplies				
Fuel and lubricants	297,979	-	-	297,979
Tires and Tubes	25,088	482	-	25,570
Other materials and supplies	4,248	266,542	16,366	287,156
Utilities	9,632	-	128,043	137,675
Insurance				
Liability insurance	97,598	-	-	97,598
Other insurance	-	-	32,608	32,608
Purchased transportation services	1,728,947	-	-	1,728,947
Miscellaneous expenses				
Travel, meetings and training	-	4,958	8,408	13,366
Association dues and subscriptions	-	369	13,951	14,320
Other misc. expenses	12,042	9,535	10,326	31,903
Operating leases and rental	-	1,132	4,496	5,628
Administration Allocation	-	-	(151,616)	(151,616)
Depreciation and amortization	576,222	106,588	308,527	991,337
Total expenses	<u>4,228,385</u>	<u>1,134,809</u>	<u>800,986</u>	<u>6,164,180</u>
Ineligible Expenses and other adjustments				
Insurance - risk pool	12,993	-	-	12,993
Depreciation	(571,299)	(100,533)	(306,983)	(978,815)
Maintenance services		(26,179)	-	(26,179)
Charter services	(5,933)	-	-	(5,933)
Association dues	-	-	(1,571)	(1,571)
Total ineligible expenses	<u>(564,239)</u>	<u>(126,712)</u>	<u>(308,554)</u>	<u>(999,505)</u>
Total eligible expenses	<u>\$ 3,664,146</u>	<u>\$ 1,008,097</u>	<u>\$ 492,432</u>	<u>\$ 5,164,675</u>

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

SCHEDULE 4N(URBAN)
URBAN REGULAR SERVICE NONFINANCIAL REPORT
FOR THE YEARS ENDED SEPTEMBER 30, 2007

UNAUDITED

Public Services

<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
Vehicle Hours	88,674	6,326	1,066	96,066
Vehicle Miles	1,266,429	89,153	15,942	1,371,524
Passengers - Regular	475,944	56,935	244	533,123
Passengers - Elderly	52,283	4,103	1	56,387
Passengers - Persons w/disabilities	146,137	9,307	1,678	157,122
Passengers - Elderly Persons w/disabilities	5,167	403	9	5,579
Total Line-Haul Passengers	443,028	58,752	-	501,780
Total Demand-Response Passengers	236,503	11,996	1,932	250,431
Days Operated	260	52	53	365

Miscellaneous Information

<u>Description</u>	<u>Quantity</u>
Charter Service Hours	100
Charter Service Miles	1358

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

SCHEDULE 4R(NONURBAN)
NONURBAN REGULAR SERVICE REVENUE REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Farebox revenues -	
Passenger fees	\$ 3,343
Contracted fares	1,081,839
Local revenues:	
Taxes levied directly for the transit agency	72,024
State formula and contracts	
State operating assistance	
Current year	992,627
Prior years	(13,265)
Federal contracts	
Federal section 5307	436,932
	<hr/>
	<u><u>\$ 2,573,500</u></u>

BLUE WATER AREA TRANSPORTATION COMMISSION**Port Huron, Michigan****SCHEDULE 4E(NONURBAN)****NONURBAN REGULAR SERVICE EXPENSE REPORT
FOR THE YEARS ENDED SEPTEMBER 30, 2007**

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total</u>
Labor				
Operators' salaries and wages	\$ 319,805	\$ -	\$ -	\$ 319,805
Other salaries and wages		160,928	81,427	242,355
Dispatchers' salaries and wages	48,193	-	-	48,193
Fringe benefits				
Other fringe benefits	133,649	51,130	34,265	219,044
Pensions	17,872	11,683	6,850	36,405
Services				
Advertising fees	-	-	10,513	10,513
Audit costs	-	-	4,607	4,607
Other services	-	38,445	13,579	52,024
Material and supplies				
Fuel and lubricants	104,837	-	-	104,837
Tires and Tubes	8,827	-	-	8,827
Other materials and supplies	-	93,944	5,758	99,702
Utilities	3,389	-	45,051	48,440
Insurance				
Liability insurance	34,338	-	-	34,338
Other insurance	-	-	11,473	11,473
Purchased transportation services	1,157,383	-	-	1,157,383
Miscellaneous expenses				
Travel, meetings and training	-	1,745	2,958	4,703
Association dues and subscriptions	-	130	4,918	5,048
Other misc. expenses	5,732	3,359	3,623	12,714
Operating leases and rental	-	398	1,581	1,979
Administration Allocation	-	-	151,616	151,616
Depreciation and amortization	202,730	37,501	108,548	348,779
Total expenses	<u>2,036,755</u>	<u>399,263</u>	<u>486,767</u>	<u>2,922,785</u>
Ineligible Expenses and other adjustments				
Insurance - risk pool	1,540	-	-	1,540
Depreciation	(200,999)	(35,370)	(108,005)	(344,374)
Maintenance services	-	(9,211)	-	(9,211)
Association dues	-	-	(552)	(552)
Total ineligible expenses	<u>(199,459)</u>	<u>(44,581)</u>	<u>(108,557)</u>	<u>(352,597)</u>
Total eligible expenses	<u>\$ 1,837,296</u>	<u>\$ 354,682</u>	<u>\$ 378,210</u>	<u>\$ 2,570,188</u>

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

SCHEDULE 4N(NONURBAN)
NONURBAN REGULAR SERVICE NONFINANCIAL REPORT
FOR THE YEARS ENDED SEPTEMBER 30, 2007

UNAUDITED

Public Services

<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
Vehicle Hours	44,271	999	513	45,783
Vehicle Miles	719,639	14,651	7,659	741,949
Passengers - Regular	34,887	1,009	475	36,371
Passengers - Elderly	22,045	49	2	22,096
Passengers - Persons w/disabilities	116,758	1,212	808	118,778
Passengers - Elderly Persons w/disabilities	3,034	6	7	3,047
Total Demand-Response Passengers	176,724	2,276	1,292	180,292
Days Operated	260	52	53	365

Miscellaneous Information

<u>Description</u>	<u>Quantity</u>
Total Demand-Response Vehicles	17
Charter Service Miles	17

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

SCHEDULE 5
OPERATING ASSISTANCE CALCULATION
FOR THE YEARS ENDED SEPTEMBER 30, 2007

	<u>Urban</u>	<u>Nonurban</u>
Total expenses	<u>\$ 6,164,180</u>	<u>\$ 2,922,785</u>
Less ineligible expenses/adjustments		
Insurance - risk pool	12,993	1,540
Depreciation	(978,815)	(344,374)
Maintenance services	(26,179)	(9,211)
Charter services	(5,933)	-
Association dues	(1,571)	(552)
	<u>(999,505)</u>	<u>(352,597)</u>
Total State Eligible Expenses	<u><u>\$ 5,164,675</u></u>	<u><u>\$ 2,570,188</u></u>
State Reimbursement		
Eligible Expenses for State Reimbursement	\$ 5,164,675	\$ 2,570,188
x Reimbursement percentage	<u>38.620800%</u>	<u>38.620800%</u>
State Operation Assistance	<u><u>\$ 1,994,639</u></u>	<u><u>\$ 992,627</u></u>
Federal Reimbursement		
Total State Eligible Expenses	n/a	\$ 2,570,188
Less Addition Federal Ineligible Expenses Per A-87		
Audit Costs	n/a	<u>-</u>
Eligible expenses for federal reimbursements	n/a	2,570,188
x Reimbursement percentage	<u>n/a</u>	<u>17.00%</u>
Federal section 5307 and section 5311 operation assistance	<u><u>\$ 1,077,714</u></u>	<u><u>\$ 436,932</u></u>

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

SCHEDULE 6

DETAILED SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2006

	2007				
	Regular Service	Charter Township of Port Huron	City of Marysville	Agency Urban Expenses	Total Urban Expenses
Expenses:					
Administrative -					
Salaries	\$ 188,914	\$ 23,500	\$ 15,044	\$ 3,564	\$ 231,022
Pension	15,893	1,977	1,266	300	19,436
Other fringes	79,496	9,889	6,331	1,500	97,216
Accounting and legal	30,841	3,837	2,456	582	37,716
Audit					
Telephone	3,467	431	276	65	4,239
Supplies	13,359	1,662	1,064	252	16,337
Travel and training	6,863	854	547	129	8,393
Public information	24,390	3,034	1,942	460	29,826
Insurance	26,616	3,311	2,120	502	32,549
Depreciation	20,510	2,551	1,633	387	25,081
Other	19,817	2,465	1,578	374	24,234
Administration Allocation	(256,128)	(31,861)	(20,397)	157,338	(151,048)
Total Administrative Expenses	<u>174,038</u>	<u>21,650</u>	<u>13,860</u>	<u>165,453</u>	<u>375,001</u>
Operational -					
Drivers' wages	741,957	92,297	59,086	13,998	907,338
Drivers' pension	31,375	3,903	2,499	592	38,369
Drivers' other fringes	269,897	33,574	21,493	5,092	330,056
Dispatchers' wages	111,809	13,909	8,904	2,109	136,731
Dispatchers' pension	10,088	1,255	803	190	12,336
Dispatchers' other fringes	40,172	4,997	3,199	758	49,126
Gasoline, diesel fuel and CNG	233,202	29,009	18,571	4,400	285,182
Oil and lubricants	10,024	1,247	798	189	12,258
Tires and tubes	20,478	2,547	1,631	386	25,042
Dispatch telephone	7,862	978	626	148	9,614
Uniforms	3,473	432	277	66	4,248
Vehicle insurance	79,664	9,910	6,344	1,503	97,421
Purchased transportation	-	-	-	1,728,947	1,728,947
Depreciation	470,341	58,509	37,456	8,874	575,180
Other	9,824	1,222	782	185	12,013
Total Operational Expenses	<u>2,040,166</u>	<u>253,789</u>	<u>162,469</u>	<u>1,767,437</u>	<u>4,223,861</u>

					2006
Burtchville Township	Agency Rural Expenses	Total Rural Expenses	Charter Service	Total Expenses	Total Expenses
\$ 13,708	\$ 67,719	\$ 81,427	\$ 419	\$ 312,868	\$ 282,398
1,153	5,697	6,850	35	26,321	22,383
5,768	28,497	34,265	176	131,657	99,769
2,238	11,055	13,293	68	51,077	68,402
252	1,243	1,495	7	5,741	6,725
969	4,789	5,758	29	22,124	21,405
498	2,460	2,958	15	11,366	12,150
1,770	8,743	10,513	54	40,393	28,160
1,931	9,541	11,472	59	44,080	35,486
1,488	7,352	8,840	46	33,967	2,672
1,438	7,104	8,542	43	32,819	29,070
(18,585)	170,201	151,616	(568)	-	-
12,628	324,401	337,029	383	712,413	608,620
53,839	265,966	319,805	1,643	1,228,786	1,204,131
2,277	11,247	13,524	69	51,962	46,230
19,585	96,749	116,334	599	446,989	391,929
8,113	40,080	48,193	248	185,172	171,981
732	3,616	4,348	24	16,708	14,709
2,915	14,400	17,315	90	66,531	76,655
16,922	83,595	100,517	516	386,215	357,208
727	3,593	4,320	23	16,601	11,978
1,486	7,341	8,827	46	33,915	34,897
571	2,818	3,389	18	13,021	9,958
252	1,245	1,497	7	5,752	7,309
5,781	28,557	34,338	177	131,936	68,947
-	1,157,383	1,157,383	-	2,886,330	2,744,026
34,129	168,601	202,730	1,042	778,952	857,505
713	3,522	4,235	22	16,270	15,384
148,042	1,888,713	2,036,755	4,524	6,265,140	6,012,847

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

SCHEDULE 6
DETAILED SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2006
(Cont'd)

	2007				
	Regular Service	Charter Township of Port Huron	City of Marysville	Agency Urban Expenses	Total Urban Expenses
Expenses - (cont'd):					
Maintenance -					
Wages	\$ 373,358	\$ 46,444	\$ 29,732	\$ 7,044	\$ 456,578
Pension	27,103	3,372	2,158	511	33,144
Other fringes	118,622	14,756	9,446	2,238	145,062
Supplies	5,397	671	430	102	6,600
Parts	195,525	24,323	15,571	3,689	239,108
Small tools	(224)	(28)	(18)	(4)	(274)
Cleaning supplies	17,251	2,146	1,374	325	21,096
Travel and training	4,048	503	322	76	4,949
Uniforms	5,707	710	454	108	6,979
Equipment rental	924	115	74	17	1,130
Repairs and maintenance	7,110	884	566	134	8,694
Purchased services	81,935	10,192	6,525	1,546	100,198
Bus shelter maintenance	145	18	12	3	178
Equipment depreciation	87,003	10,823	6,928	1,641	106,395
Other	2,387	297	190	45	2,919
Total Maintenance Expenses	<u>926,291</u>	<u>115,226</u>	<u>73,764</u>	<u>17,475</u>	<u>1,132,756</u>
Facilities -					
Utilities -					
Heat	39,841	4,956	3,173	752	48,722
Electricity	49,951	6,214	3,978	942	61,085
Water	11,257	1,400	896	212	13,765
Rent	3,670	456	292	69	4,487
Building maintenance and repair	5,017	624	400	95	6,136
Security service	6,336	788	505	120	7,749
Building depreciation	231,326	28,776	18,422	4,364	282,888
Total Facilities Expenses	<u>347,398</u>	<u>43,214</u>	<u>27,666</u>	<u>6,554</u>	<u>424,832</u>
Total Expenses	<u>3,487,893</u>	<u>433,879</u>	<u>277,759</u>	<u>1,956,919</u>	<u>6,156,450</u>
Less Ineligible Expenses:					
Insurance - Risk Pool	10,605	1,319	845	200	12,969
Depreciation	(798,958)	(99,388)	(63,625)	(15,074)	(977,045)
Maintenance Services	(21,369)	(2,658)	(1,702)	(403)	(26,132)
Association Dues	(1,282)	(159)	(102)	(24)	(1,567)
Total Ineligible Expenses	<u>(811,004)</u>	<u>(100,886)</u>	<u>(64,584)</u>	<u>(15,301)</u>	<u>(991,775)</u>
Net Eligible Expenses	<u>\$ 2,676,889</u>	<u>\$ 332,993</u>	<u>\$ 213,175</u>	<u>\$ 1,941,618</u>	<u>\$ 5,164,675</u>

<u>Burtchville Township</u>	<u>Agency Rural Expenses</u>	<u>Total Rural Expenses</u>	<u>Charter Service</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
\$ 27,092	\$ 133,836	\$ 160,928	\$ 828	\$ 618,334	531,152
1,967	9,716	11,683	60	44,887	35,238
8,608	42,522	51,130	263	196,455	171,952
392	1,935	2,327	11	8,938	5,816
14,188	70,089	84,277	433	323,818	308,046
(16)	(80)	(96)	-	(370)	3,158
1,252	6,184	7,436	38	28,570	16,228
294	1,451	1,745	9	6,703	3,766
414	2,046	2,460	12	9,451	10,083
67	331	398	2	1,530	139
516	2,549	3,065	16	11,775	18,145
5,946	29,371	35,317	182	135,697	110,922
11	52	63	-	241	2,889
6,313	31,188	37,501	193	144,089	179,144
173	856	1,029	6	3,954	2,806
<u>67,217</u>	<u>332,046</u>	<u>399,263</u>	<u>2,053</u>	<u>1,534,072</u>	<u>1,399,484</u>
2,891	14,282	17,173	88	65,983	21,629
3,625	17,906	21,531	110	82,726	18,951
817	4,035	4,852	27	18,644	9,296
266	1,315	1,581	9	6,077	45,386
364	1,798	2,162	11	8,309	10,481
460	2,271	2,731	13	10,493	11,318
16,786	82,922	99,708	512	383,108	63,756
<u>25,209</u>	<u>124,529</u>	<u>149,738</u>	<u>770</u>	<u>575,340</u>	<u>180,817</u>
<u>253,096</u>	<u>2,669,689</u>	<u>2,922,785</u>	<u>7,730</u>	<u>9,086,965</u>	<u>8,201,768</u>
770	770	1,540	24	14,533	25,000
(57,975)	(286,399)	(344,374)	(1,770)	(1,323,189)	(1,077,986)
(1,551)	(7,660)	(9,211)	(47)	(35,390)	(28,005)
(93)	(459)	(552)	(4)	(2,123)	(3,059)
<u>(58,849)</u>	<u>(293,748)</u>	<u>(352,597)</u>	<u>(1,797)</u>	<u>(1,346,169)</u>	<u>(1,084,050)</u>
<u>\$ 194,247</u>	<u>\$ 2,375,941</u>	<u>\$ 2,570,188</u>	<u>\$ 5,933</u>	<u>\$ 7,740,796</u>	<u>\$ 7,117,718</u>

**SUPPLEMENTARY INFORMATION
ON FEDERAL AWARDS**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Blue Water Area Transportation Commission
Port Huron, Michigan

We have audited the financial statements of Blue Water Area Transportation Commission as of and for the year ended September 30, 2007, and have issued our report thereon dated March 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Blue Water Area Transportation Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We considered the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting, which is referenced as 07-1.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Blue Water Area Transportation Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

We noted certain matters that we reported to management of the Blue Water Area Transportation Commission in a separate letter dated March 13, 2008.

This report is intended solely for the information and use of management, others within the entity and the Board of Commissioners of the Blue Water Area Transportation Commission, and federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants,

March 13, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Commissioners
Blue Water Area Transportation Commission
Port Huron, Michigan

Compliance

We have audited the compliance of the Blue Water Area Transportation Commission with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The Blue Water Area Transportation Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Blue Water Area Transportation Commission's management. Our responsibility is to express an opinion on the Blue Water Area Transportation Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Blue Water Area Transportation Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Blue Water Area Transportation Commission's compliance with those requirements.

In our opinion, the Blue Water Area Transportation Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the Blue Water Area Transportation Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Blue Water Area Transportation Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion of the effectiveness of Blue Water Area Transportation Commission's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, others within the entity and the Board of Commissioners of the Blue Water Area Transportation Commission, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

March 13, 2008

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION:			
Direct Assistance -			
Capital Assistance -			
Section 5309	20.500	MI-03-0168	\$ 36,251
Section 5309		MI-04-0021	1,250,000
			<u>1,286,251</u>
Capital Assistance -			
Section 5307	20.507	MI-90-X362	11,219
Section 5307		MI-90-X390	4,782
Section 5307		MI-90-X416	101,731
Section 5307		MI-90-X446	78,269
Section 5307		MI-90-X479	16,000
Section 5307		MI-90-X506	16,000
			<u>228,001</u>
Operating Assistance - Section 5307		MI-90-X538	1,077,714
			<u>1,305,715</u>
Total Direct Assistance From U.S Department of Transportation			<u>2,591,966</u>
Passed Through Michigan Department of Transportation -			
Capital Assistance -			
Section 5309	20.500	2002-0020/Z16	60,283
Operating Assistance -			
Section 5311	20.509	2007-0178/Z1	436,932
			<u>497,215</u>
Total Federal Awards			<u>\$ 3,089,181</u>

See Notes to Schedule of Expenditures
of Federal and State Awards

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 1 - BASIS OF PRESENTATION:

The Blue Water Area Transportation Commission (BWATC) is accounted for in essentially the same manner as state and local governments' Enterprise Funds. The Commission reports on the accrual basis of accounting for financial statement presentation in accordance with accounting principles generally accepted in the United States of America.

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Blue Water Area Transportation Commission and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

Financial Statements –	
Non-operating revenue –	\$ 1,514,646
Capital Grants	<u>1,574,535</u>
 Total Expenditures of Federal Awards	 <u>\$ 3,089,181</u>

NOTE 3 - SUBRECIPIENTS:

Of the expenditures presented in the Schedule of Expenditures of Federal Awards, the Blue Water Area Transportation Commission provided awards to subrecipients as follows:

Operating Assistance – Section 5311	CFDA #20.509	\$ 196,756
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BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Section I - Summary Of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal controls over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified not considered to be material weaknesses? x yes _____ none reported

Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified not considered to be material weaknesses? _____ yes x none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A – 133, Section 510(a)? _____ yes x no

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA #20.500 CFDA #20.507	Cluster - Federal Transit Capital Improvement Grant Federal Transit Capital and Operating Assistance Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? x yes _____ no

Section II - Financial Statement Findings:

07-1

Program - This Financial Statement Finding does not have an effect on Federal Awards

Condition: Blue Water Area Transportation Commission's management has had the auditor prepare the annual financial statements and assigned staff to review the financial accuracy. However, has relied on the auditor for the financial statement presentation, including the notes to be in accordance with Generally Accepted Accounting Principles.

Criteria: Statement on Auditing Standard No. 112 "Communicating Internal Control Related Matters Identified in an Audit" specifies that the organization is responsible for internal control over financial reporting. This financial reporting includes the financial statements, including the notes, being presented in accordance with Generally Accepted Accounting Principles.

Cause: The finance director for the Blue Water Area Transportation Commission has been off on medical leave therefore the Commission did not have an alternative individual with the necessary Generally Accepted Accounting Principles experience.

Effect: There is the possibility that a misstatement of the organizations financial statements that is more than inconsequential could occur and not be prevented or detected by the Blue Water Area Transportation Commission's internal control.

Recommendation: With the implementation of any internal control procedure both the efficiency and cost must be evaluated along with the risk. We do not recommend any changes to this situation at this time, however are reporting it as required under professional standards.

Section III - Federal Award Findings and Questioned Costs:

There were no Federal Award Findings and Questioned Costs required to be reported by Section 510(a) of OMB Circular A-133.

Section IV - Prior Year Findings and Questioned Costs:

There were no prior year Findings and Questioned Costs.